

Message Text

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C O N F I D E N T I A L STATE 204941

E.O. 11652: GDS

TAGS: MCAP, NATO

SUBJECT: BURDENSARING: STUDY GROUP'S REPORT TO NAC

REF: (A) A/291-WP(73)1 (B) USNATO 4779 (C) USNATO 4844

1. IN BURDENSARING STUDY GROUP MEETING ON OCTOBER 15 YOU
SHOULD ATTEMPT TO HAVE SECOND REVISION OF REF A CHANGED
AS RECOMMENDED BELOW. WE RECOGNIZE THAT IT MAY BE
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IMPOSSIBLE TO REACH AGREEMENT ON THE PROPOSED CHANGES AT
THE OCTOBER 15 MEETING. WE DO NOT WANT TO DELAY CONSIDERA-
TION OF THIS PROBLEM BY THE NAC. WE RELY ON YOUR JUDGEMENT
WHETHER FURTHER ARGUMENTS WITH THE ALLIES OVER THE FIGURES

AND LANGUAGE OF THE REPORT WOULD BE COUNTERPRODUCTIVE. WE LEAVE TO YOUR DISCRETION, THEREFORE, WHETHER TEXTUAL CHANGES ARE MADE OR, ALTERNATIVELY, FOOTNOTES ARE INSERTED STATING SEPARATE US VIEWS.

PARA. 4, FOOTNOTE (5) ADD: "LATEST US PROJECTION OF NATO RELATED MILITARY" BALANCE OF PAYMENTS EXPENDITURES IS DOLS 2.5 BILLION."

PARA. 7. IN SECOND SENTENCE INSERT "MILITARY" BEFORE BALANCE OF PAYMENTS." DELETE LAST TWO SENTENCES. (DELETED LAST SENTENCE IS WRONG. RELATIONSHIP BETWEEN BUDGETARY AND BOP EFFECTS ADEQUATELY COVERED IN PARA. 35.)

PARA 8. DELETE REMAINDER OF SECOND SENTENCE AFTER SEMI-COLON WHICH BEGINS "AND ALSO" THROUGH "ARRANGEMENTS."

PARA 10. IN SECOND SENTENCE DELETE "AND CANADA". (WE HAVE NOT ASKED THE ALLIES TO OFFSET THE BILATERAL MILITARY BOP DEFICIT WITH CANADA.) NEXT TO LAST SENTENCE, DELETE ALL AFTER THE REFERENCE TO "(PARAGRAPH 26)". (SEE LATER COMMENTS ON PARAGRAPHS 27-30.)

PARA. 13. COMMENTS APPLY TO DRAFT PARA 13 IN REF C: WE ACCEPT YOUR DRAFT EXCEPT IN NEXT TO LAST SENTENCE DELETE "FULLY".

PARA. 15. DELETE WORDS IN ITEM "(C)" OF FIRST SENTENCE AND SUBSTITUTE "EXCHANGE RATE CHANGES". DELETE LAST FOUR WORDS OF LAST SENTENCE AND SUBSTITUTE "EXCHANGE RATE CHANGES."

PARA 23. CHANGE TO READ AS FOLLOWS: "SINCE 1961 THESE AGREEMENTS HAVE HELPED TO MITIGATE THE NEGATIVE EFFECT OF THE UNITED STATES BALANCE OF PAYMENTS DUE TO THE DM EXPENDITURES OF UNITED STATES FORCES IN GERMANY. IN ALL, PAYMENTS TOTALING DM 34,600 MILLION HAVE BEEN MADE SINCE THAT YEAR INCLUDING DM 8,250 MILLION IN THE FORM OF CONFIDENTIAL

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REPAYABLE FINANCIAL TRANSACTIONS, OF WHICH MORE THAN DM 4,000 MILLION SO FAR HAS BEEN REPAID WITH INTEREST. MORE THAN ANOTHER DM 2,000 MILLION REPRESENTS ADVANCE DEPOSITS FOR MILITARY EQUIPMENT WHICH HAS YET TO BE DELIVERED. US MILITARY EXPENDITURES IN GERMANY SINCE 1961 HAVE TOTALED DOLS 13,931 MILLION (ABOUT DM 44,675 MILLION). THIS FIGURE EXCLUDES INTEREST PAYMENTS OF US AND GERMAN EXPENDITURES FOR REHABILITATION OF BARRACKS AND OTHER FACILITIES USED BY UNITED STATES FORCES IN GERMANY. FROM 1967, IT HAS BEEN AGREED BETWEEN THE TWO COUNTRIES CONCERNED THAT 80 PERCENT OF THE UNITED STATES EXPENDITURES IN GERMANY IS A SUITABLE TARGET FOR BILATERAL OFFSET ARRANGEMENTS." IN ADDITION, THE FIGURE OF DM

4,000 MILLION IN THE ABOVE NEW PARAGRAPH 23 SHOULD HAVE THE FOLLOWING

FOOTNOTE: "EXCLUDES ADJUSTMENTS FOR EXCHANGE LOSSES RESULTING FROM EXCHANGE RATE CHANGES."

PARA 20 (BIS) DELETE LAST SENTENCE (POSITION CLEAR IN FIRST SENTENCE)

PARA 25. DELETE SECOND SENTENCE. ADD TO END OF THIRD SENTENCE: "OR THE OVERALL PAYMENTS BALANCE." CHANGE END OF FINAL SENTENCE TO READ: "HAD BEEN FINANCED BY THE US."

PARA 26. INSERT FOOTNOTE AT END OF FIRST SENTENCE: "THESE COSTS, MAINLY IMPUTED RENTS FOR REAL ESTATE, ARE NOT INCLUDED IN US FIGURES FOR MILITARY EXPENDITURES IN EUROPE, AND THEIR FINANCING DOES NOT REDUCE THE US EXPENDITURE FIGURES MENTIONED IN PARAGRAPHS 4 AND 13."

PARAS 27-30 (AND RELATED PORTIONS OF PARAS 10 AND 16 BIS) SHOULD BE DELETED. YOU SHOULD ARGUE FOR DELETIONS ON THE FOLLOWING GROUNDS:

A. NO BASIS CAN BE FOUND FOR USEFUL TREATMENT IN THIS CONTEXT OF SUCH OPEN-ENDED MATTERS AS "OTHER MEASURES TAKEN BY NATO COUNTRIES WITH BOP IMPLICATIONS;"

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B. WHILE RECENT EXCHANGE RATE CHANGES MAY BE IN THE FORE OF PEOPLES'S THINKING, RANGE OF MEASURES AFFECTING BOP IS ALMOST INFINITE, COVERING DOMESTIC MONETARY AND FISCAL POLICIES, TRADE POLICY ACTIONS, CAPITAL CONTROLS, ETC. THESE MEASURES INCLUDE BOTH ACTIONS SERVING TO ALLEVIATE PAYMENTS DISEQUILIBRIA AND TO EXACERBATE THEM;

C. GERMAN ADDITIONS (PARA 30) HIGHLIGHT THIS PROBLEM. THEY WOULD PLUNGE GROUP INTO FRUITLESS DISCUSSION OF U.S. SCOPE FOR EXCHANGE RATE ADJUSTMENT, RESPONSIBILITY FOR BOP ADJUSTMENT, EVALUATIONS OF GAINS AND LOSSES FROM EXCHANGE RATE REALIGNMENTS AND SO FORTH. DISCUSSIONS OF COMPLEX QUESTION OF WHO GAINS FROM BETTER INTERNATIONAL PAYMENTS EQUILIBRIUM HAVE BEEN TAKING PLACE FOR YEARS IN VARIOUS INTERNATIONAL ECONOMIC AND MONETARY FORA, AND THEIR DISCUSSION IN NATO COULD ONLY SERVE TO DIVERT STUDY GROUP FROM TASK OF CONSIDERING WAYS OF LESSENING THE BURDEN WHICH OVERSEAS TROOP EXPENDITURES IMPOSE ON THE ADJUSTMENT PROCESS.

MORE GENERALLY, WE QUESTION THE RELEVANCE OF EXAMINING THE U.S. BEGIN UNDERLINE OVERALL END UNDERLINE BALANCE OF

PAYMENTS. WE CANNOT ACCEPT ANY IMPLICATIONS THAT THE DEFICIT ON MILITARY ACCOUNT IS NO LONGER A PROBLEM IF THE OVERALL BALANCE IS IN EQUILIBRIUM OR SURPLUS. ACCORDINGLY, YOU SHOULD SEEK TO LOCATE PARAS 17-20 IN AN ANNEX IF POSSIBLE. (WE ARE IN ANY EVENT UNEASY ABOUT SEVERAL STATEMENTS IN THE SECTION.)

IF YOU ARE UNSUCCESSFUL IN OBTAINING DELETION OF PARAS 27-30, YOU SHOULD MAKE CLEAR THAT YOU DO NOT ACCEPT THE LOGIC OF THESE PARAGRAPHS AND SHOULD INSIST ON INCLUSION OF THE FOLLOWING PARAGRAPH IN BODY OF THE REPORT IF OTHERS INSIST ON MAINTAINING PRECEEDING PARAS IN BODY (YOU COULD ALSO ACCEPT INCLUSION OF BOTH VIEWS AS SEPARATE FOOTNOTES).

"THE U.S. CONSIDERS THAT THE EXCHANGE RATE REALIGNMENTS AND OTHER MONETARY ACTIONS TAKEN IN RECENT YEARS BY COUNTRIES WHICH ARE MEMBERS OF NATO WERE IN THE SELF-INTEREST OF THE NATIONS TAKING THOSE MEASURES AS WELL AS BEING IN THE BEST INTEREST OF
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THE TRADING WORLD AS A WHOLE. THE FACT THAT PROGRESS HAS BEEN MADE TOWARD A BETTER WORLD PAYMENTS EQUILIBRIUM DOES NOT ALTER THE FACT THAT U.S. MILITARY EXPENDITURES ABROAD ADVERSELY AFFECT THE U.S. BALANCE OF PAYMENTS POSITION. IT IS THE BALANCE OF PAYMENTS IMPACT OF THESE EXPENDITURES WHICH IS RELEVANT, NOT WHETHER THE TOTAL OF MILITARY AND NON-MILITARY BALANCE OF PAYMENTS TRANSACTIONS AT ANY ONE MOMENT HAPPENS TO PRODUCE A SURPLUS OR A DEFICIT."

PARA 33. IN LAST SENTENCE DELETE "WOULD NOT NECESSARILY BE LIMITED TO FINANCIAL AGREEMENTS BUT" AND "IF SO REQUIRED". (WE DO NOT WISH TO SUGGEST FINANCIAL LOANS AS A POSSIBLE SOLUTION TO OUR BOP PROBLEMS AT THIS TIME.)

PARA

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